

Legislative Audit Division

State of Montana



Report to the Legislature

November 2005

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Department of Public Health and Human Services

This report contains 18 recommendations related to specific compliance concerns in the department programs. Issues addressed in this report include:

- ▶ Paying \$205,870 in federal foster care benefits for services to ineligible clients.
- ▶ Improving compliance with legal requirements of the Women, Infants, and Children Program, related to monitoring, documentation and controls.
- ▶ Charging vocational rehabilitation costs to the proper grant year.

Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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FINANCIAL-COMPLIANCE AUDITS

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Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
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PO Box 201705
Helena MT 59620-1705

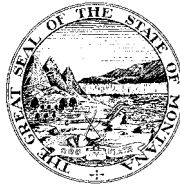
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James Gillett, Financial-Compliance Audit

November 2005

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial-compliance audit of the Department of Public Health and Human Services for the two fiscal years ended June 30, 2005. This report includes recommendations to strengthen foster care client eligibility procedures, improve compliance with legal requirements of the Women, Infants, and Children Program, and charge vocational rehabilitation costs to the proper grant year.

We thank the director and her staff for the assistance and cooperation provided during the audit.

Respectfully submitted,

/s/ Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Department of Public Health and Human Services

Members of the audit staff involved in this audit were Laurie Barrett, David Brammer, Chris Darragh, Jennifer Erdahl, John Fine, Geri Hoffman, Brenda Kedish, Hollie Koehler, Alexa O'Dell, Paul J. O'Loughlin, Delsi Plummer, Sonia Powell, Vickie Rauser, Melissa Soldano, and Amber Thorvilson.

Table of Contents

Appointed and Administrative Officials	iii
Report Summary	S-1
Introduction.....	1
Introduction and Scope of Audit.....	1
Background.....	1
Prior Audit Recommendations.....	5
Questioned Costs	5
Findings and Recommendations.....	7
Foster Care.....	7
Permanency Placement Hearings	7
Eligibility Reviews	8
Federal Medical Assistance Percentage.....	9
Women, Infants, and Children Program	10
Local Agency Monitoring	10
Completeness of Monitoring Process	11
Clinic Monitoring	11
Corrective Action Plans.....	12
Tracking Vouchers	13
Dual Certification	14
Compliance Investigations	15
Contract Reimbursements.....	15
Timeliness of WIC Expenditures Reimbursements.....	16
Vocational Rehabilitation	17
Limiting Expenditures to the Grant Period.....	17
Financial Reporting	18
Medicaid	18
Inpatient Hospital Overpayments	19
Hospital Cost Reports.....	20
Disabilities Services Invoices	20
Drug Utilization Data	22
Food Program Applications	22
Debarred Parties.....	23
Independent Auditor's Report & Department Financial Schedules.....	A-1
Independent Auditor's Report	A-3
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2005	A-5
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2004.....	A-6
Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 2005	A-7

Table of Contents

Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 2004	A-8
Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2005	A-9
Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2004	A-10
Notes to the Financial Schedules	A-11
Department Response	B-1
Department of Public Health and Human Services.....	B-3

Appointed and Administrative Officials

Department of Public Health and Human Services

Joan Miles, Director

John Chappuis, Deputy Director

Joyce De Cunzo, Administrator
Addictive and Mental Disorders Division

Shirley K. Brown, Administrator
Child and Family Services Division

Administrator, Vacant
Health Resources Division

Lonnie J. Olson, Administrator
Child Support Enforcement Division

Hank Hudson, Administrator
Community and Human Services Division

Joe Mathews, Administrator
Disability Services Division

Administrator, Vacant
Fiscal Services Division

Jane Smilie, Administrator
Public Health and Safety Division

Mike Billings, Administrator
Operations and Technology Division

Mary Dalton, Administrator
Quality Assurance Division

Kelly Williams, Administrator
Senior and Long Term Care Division

**Department of Public
Health and Human
Services**

We performed a financial-compliance audit of the Department of Public Health and Human Services (PHHS) for the two fiscal years ended June 30, 2005. We determined the status of audit recommendations made to PHHS in the previous audit. Of the 16 recommendations still applicable to the agency, PHHS implemented nine, partially implemented five and did not implement two.

We issued an unqualified opinion on the financial schedules for each of the two years under audit. The opinion is located on page A-3. The reader may rely on the presented financial information and the supporting data on the Statewide Accounting, Budgeting and Human Resources System.

This audit report contains 18 recommendations to PHHS. The issues discussed in this report include noncompliance with federal regulations concerning payments of foster care benefits for ineligible clients, compliance with legal requirements of the Women, Infants, and Children Program, and charging vocational rehabilitation costs after the close of the grant year.

PHHS management's response to our recommendations starts on page B-3 of the report document. The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department continue to improve procedures to ensure permanency placement hearings occur as required by federal regulations. 8

Department Response: Concur. See page B-3.

Report Summary

Recommendation #2

We recommend the department:

- A. Establish procedures to review foster care case files as required by federal regulations,

Department Response: Concur. See page B-4.

- B. Comply with state administrative rule requiring eligibility review for foster care cases every six months. 9

Department Response: Concur. See page B-4.

Recommendation #3

We recommend the department establish controls to ensure the federal share of foster care benefits is recorded at the correct rate on the foster care subsystem and on the state's accounting system. 10

Department Response: Concur. See page B-4.

Recommendation #4

We recommend the department:

- A. Promptly notify a local agency of any finding identified during a monitoring review, in accordance with federal regulations.

Department Response: Concur. See page B-4.

- B. Review local agency financial reports and evaluate financial management systems during monitoring reviews, in accordance with federal regulations.

Department Response: Concur. See page B-5.

- C. Perform reviews of nutrition clinics in each local agency in accordance with federal regulations. 12

Department Response: Concur. See page B-5.

Report Summary

<u>Recommendation #5</u>	We recommend the department obtain corrective action plans from the local agencies within 60 days of the date the findings reports were received by the local agencies.	13
	<u>Department Response:</u> Concur. See page B-6.	
<u>Recommendation #6</u>	We recommend the department complete and document reviews of voided and reissued WIC vouchers..	14
	<u>Department Response:</u> Concur. See page B-6.	
<u>Recommendation #7</u>	We recommend the department run and review its WIC dual certification report monthly to detect dual participation by clients.	14
	<u>Department Response:</u> Concur. See page B-7.	
<u>Recommendation #8</u>	We recommend the department conduct annual compliance investigations of WIC vendors as required by federal regulations.	15
	<u>Department Response:</u> Concur. See page B-7.	
<u>Recommendation #9</u>	We recommend the department limit indirect cost payments to WIC agencies to those payments supported by a pre-approved indirect cost plan.	16
	<u>Department Response:</u> Concur. See page B-7.	
<u>Recommendation #10</u>	We recommend the department process payments to local agencies in compliance with section 17-8-242, MCA.	16
	<u>Department Response:</u> Concur. See page B-8.	
<u>Recommendation #11</u>	We recommend the department charge payroll costs to the proper federal grant.	18
	<u>Department Response:</u> Concur. See page B-8.	

Report Summary

<u>Recommendation #12</u>	We recommend the department implement a procedure to review the Vocational Rehabilitation RSA-2 report to ensure the correct expenditures are reported.	18
	<u>Department Response:</u> Concur. See page B-8.	
<u>Recommendation #13</u>	We recommend the department comply with state regulations concerning the collection of Medicaid overpayments to inpatient hospitals.	20
	<u>Department Response:</u> Concur. See page B-9.	
<u>Recommendation #14</u>	We recommend the department develop procedures to document the receipt of cost reports to achieve compliance with state regulations and the approved state Medicaid plan.	20
	<u>Department Response:</u> Concur. See page B-9.	
<u>Recommendation #15</u>	We recommend the department communicate management’s expectations regarding disability services provider invoice reviews to regional administrative assistants and quality improvement specialists.	21
	<u>Department Response:</u> Concur. See page B-9.	
<u>Recommendation #16</u>	We recommend the department provide drug utilization data to manufacturers within 60 days after the end of the quarter as required by federal regulations.	22
	<u>Department Response:</u> Concur. See page B-9.	

Report Summary

Recommendation #17

We recommend the department file checklists and application documentation in the Child and Adult Care Feeding Program provider files in accordance with state and federal regulations. 23

Department Response: Concur. See page B-10.

Recommendation #18

We recommend the department implement its policy to prevent contracting with parties that have been suspended and debarred from participating in federal programs. 24

Department Response: Concur. See page B-10.

Introduction

Introduction and Scope of Audit

We performed a financial-compliance audit of the Department of Public Health and Human Services (PHHS) for the two fiscal years ended June 30, 2005. The objectives of the audit were to:

1. Determine if the department complied with applicable federal and state laws and regulations.
2. Review the department's internal, financial operation, and administrative controls and make recommendations for their improvement.
3. Determine if the department's financial schedules present fairly, in accordance with state accounting policy, the results of operations for the fiscal years ended June 30, 2004 and 2005.
4. Determine the implementation status of prior audit recommendations for which the department was responsible.

This report contains 18 recommendations to the department. These recommendations address areas where the department can improve controls, accounting procedures, and compliance with federal and state laws and regulations. Other concerns deemed not to have a significant effect on the successful operation of department programs have been discussed with department management and are not included in this report. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Background

PHHS spent more than \$1 billion each year of our audit period administering social service and health programs for the state of Montana. The programs include Medicaid, economic assistance, developmental disabilities services, vocational rehabilitation, child and adult protective services, mental health, substance abuse prevention and treatment, and public health services, including immunizations and disease control. PHHS operates two mental health facilities, two veterans' homes, a facility for the developmentally disabled, a public health lab and a substance abuse treatment center.

Introduction

Total expenditures by fund, as recorded for PHHS, are identified below for the two fiscal years ended June 30, 2004, and 2005.

Benefits and Claims expenditures account for 74 percent of the total expenditures in these fiscal years.

Table 1

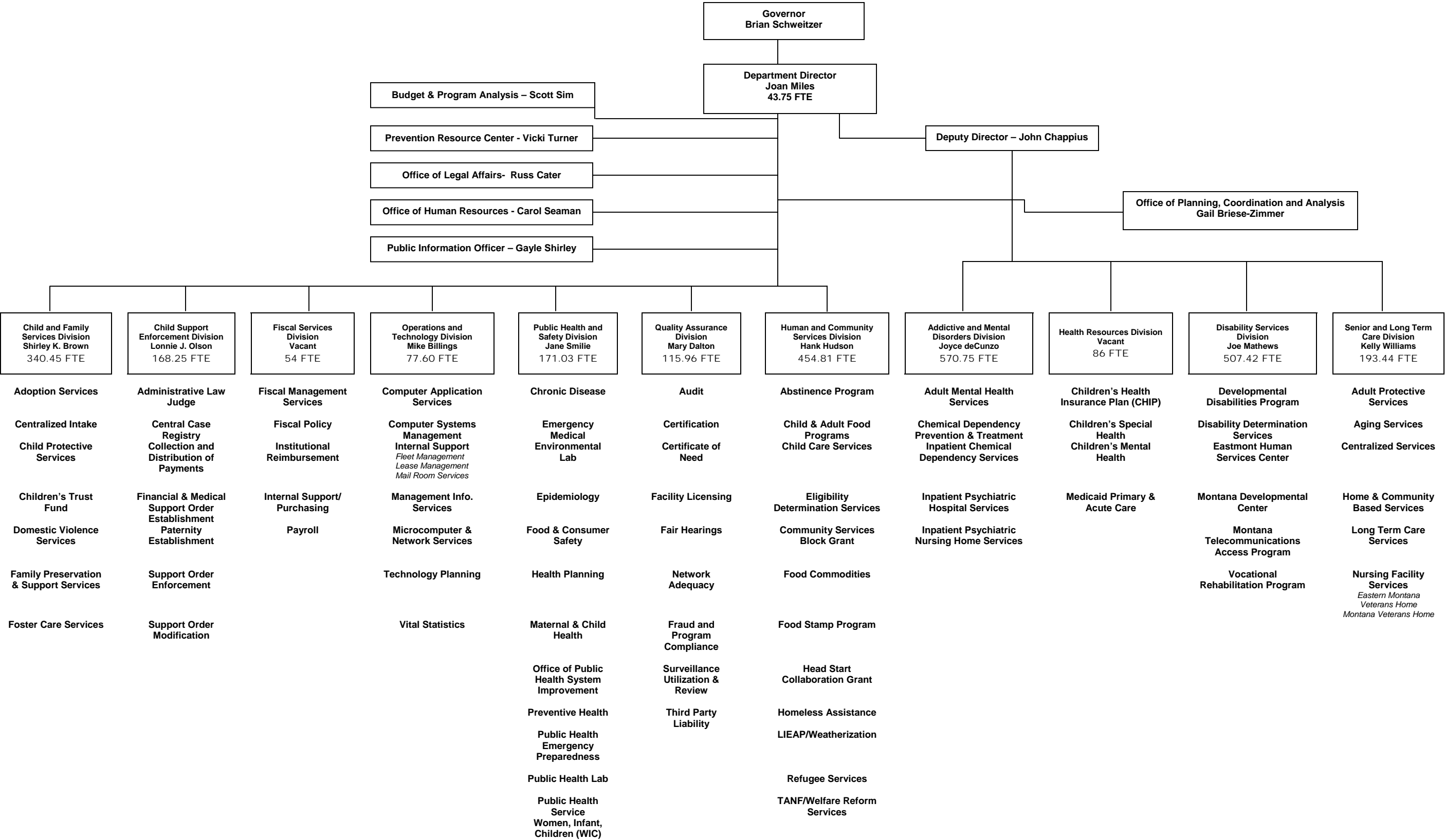
Total Expenditures by Fund

	<u>FY 2003-04</u>	<u>FY 2004-05</u>
General Fund	\$ 251,016,163	\$ 278,830,294
State Special Revenue Fund	76,860,187	74,616,656
Federal Special Revenue Fund	855,984,987	842,532,325
Debt Service Fund	2,995,878	2,949,352
Permanent Fund	2,692,018	3,202,336
Total	<u>\$ 1,189,549,233</u>	<u>\$ 1,202,130,963</u>

Source: Compiled by the Legislative Audit Division from PHHS accounting records.

During the two years ended June 30, 2005, the department was organized into 11 divisions. These divisions are Addictive and Mental Disorders, Child and Family Services, Health Resources, Child Support Enforcement, Disability Services, Fiscal Services, Public Health and Safety, Human and Community Services, Operations and Technology, Quality Assurance, and Senior and Long Term Care. A current organizational chart showing programs, services, and the distribution of the department's 2,783.46 budgeted full-time equivalent employees (FTE) for fiscal year 2005-06 by division is on page 3.

Department of Public Health and Human Services
Program Organizational Chart



Prior Audit Recommendations

We determined the implementation status of the 16 prior audit recommendations directed to the department. The department implemented nine, partially implemented five, and did not implement two. The recommendations not implemented concern tracking of vouchers (page 13) and preventing dual certification of clients (page 14) for the Supplemental Nutrition for Women, Infants, and Children (WIC) grant. A partially implemented recommendation dealing with the reports on WIC monitoring visits is discussed on page 10. The department partially implemented recommendations concerning expending funds outside the grant period (page 19) and federal reporting (page 20) for the Vocational Rehabilitation grant. The department has initiated adoption of rules concerning administration of the statewide trauma care system and adoption medical benefits, so no further recommendation on these issues appear in this report.

PHHS management continued its improvements of the department's financial control structure. Centrally administered functions such as the cost allocation process, cash draws for federally funded administrative and program costs, federal financial reporting, and reconciliations of financial subsystems to the state's accounting records functioned effectively during the audit period. This report contains no findings related to these functions. We issued an unqualified opinion on the department's financial schedules for the second consecutive audit.

Questioned Costs

In the report sections that follow, we identify as questioned costs expenditures of federal assistance that do not comply with regulations of the federal program. Under federal audit requirements, the auditor questions costs associated with an audit finding when the costs result from a violation or probable violation of law or regulation governing the use of federal funds, when the costs are not supported by adequate documentation at the time of the audit, or when the costs incurred appear unreasonable. When federal program personnel resolve the audit issues and set corrective action plans, the federal government may require repayment, reduce the

Introduction

current federal award, or take no financial action on the questioned cost.

Table 2
Summary of Questioned Costs

<u>Grant Title</u>	<u>Amount Questioned</u>	<u>Report Page</u>
Foster Care	\$ 205,870	7
Vocational Rehabilitation	\$ 19,269	20

Source: Compiled by the Legislative Audit Division.

Findings and Recommendations

Foster Care

The Department of Public Health and Human Services (Department) operates the Foster Care program with federal financial assistance under the provisions of Title IV-E of the Social Security Act. Federal foster care funds may be spent for maintenance payments on behalf of eligible children. Payments are made to individuals providing foster homes, to child-care institutions, or to public or non-profit child placement or child-care agencies. Such payments may include the cost of food, clothing, shelter, daily supervision, school supplies, personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation.

The following three sections discuss compliance concerns related to the administration of Title IV-E foster care services. As a result of the three non-compliance issues we question \$205,870 in federal costs paid by the department during the time the children were not eligible to receive Title IV-E foster care assistance.

Permanency Placement Hearings

The department did not consistently ensure that Title IV-E foster permanency placement hearings were completed timely as required by federal regulations.

Federal foster care benefits are allowable if the child's placement and care are the responsibility of the state, the child meets certain eligibility requirements, the placement is with a qualified foster care provider, and periodic placement hearings are held. Federal regulations require the department to finalize a permanency placement plan through a formal hearing process within 12 months of the date a child enters the foster care program. Federal regulations further require the department to re-evaluate the permanency placement plan at least once every 12 months as long as the child remains in the foster care program.

During our audit, we reviewed 45 case files for eligibility requirements. In those cases tested, we identified 18 eligibility errors caused by late permanency placement hearings.

Findings and Recommendations

Department personnel stated insufficient training in Title IV-E requirements for social workers and scheduling conflicts with courts as key factors causing late permanency placement hearings. To address these problems, the department established a central staff group in December 2003 specifically trained to determine Title IV-E eligibility and monitor Title IV-E compliance.

Recommendation #1

We recommend the department continue to improve procedures to ensure permanency placement hearings occur as required by federal regulations.

Eligibility Reviews

The department did not conduct timely reviews of foster care client eligibility.

In order to qualify for foster care assistance, a child must meet financial need and other eligibility requirements. The state's plan, approved by the federal government, includes a requirement to review eligibility every 12 months, as set in federal regulations.

During the audit, we reviewed 45 case files. We found 11 of 39 case files subject to annual review did not contain a timely annual eligibility review as required by federal regulations and none of them had a six month review as required by administrative rule. Since continued eligibility was affirmed in each of the 11 cases during the subsequent eligibility review, the department made no unallowable payments to the participants.

The department has an administrative rule that requires re-determination of eligibility every six months. Department management said they thought the six month re-determination of eligibility rule had been repealed. Since the department's administrative rule is more stringent than the federal regulations, the department should comply with it.

Findings and Recommendations

Recommendation #2

We recommend the department:

- A. Establish procedures to review foster care case files as required by federal regulations.**
- B. Comply with state administrative rule requiring eligibility review for foster care cases every six months.**

Federal Medical Assistance Percentage

The department recorded federal foster care expenditures at the wrong rate for nine months.

The department pays Title IV-E foster care benefits using the Federal Medical Assistance Percentage (FMAP) rate authorized by the federal government to calculate the federal share. The FMAP rate changes each federal fiscal year. To eliminate the need to manually record the state and federal portions of foster care expenditures, the department programs the state's accounting system to record expenditure activity in the federal and state funds according to the FMAP rate.

In sample testing, we noted transactions were posted to the state's accounting system between October 2003 and June 2004 at the wrong FMAP rate. In June 2004, department fiscal personnel manually adjusted the state's accounting records to properly reflect federal fiscal year 2004 FMAP in the allocation of costs to federal and state funds. However, the department did not identify the cause of the error at that time, since the FMAP for the period had been coded correctly on the state's accounting system. Subsequently, we discovered that the FMAP had been coded incorrectly on department's subsystem used by the foster care program. In the interface between the subsystem and the state's accounting system, the funding split from the subsystem overrides FMAP coding in the state's accounting records.

Findings and Recommendations

Department officials rely on the foster care subsystem to allocate cost to funding sources in a manner that maximizes the use of non-General Fund money. Therefore, the department should implement controls to ensure Title IV-E benefit costs are recorded at the correct FMAP on the subsystem before transferring those costs to the state's accounting system.

Recommendation #3

We recommend the department establish controls to ensure the federal share of foster care benefits is recorded at the correct rate on the foster care subsystem and on the state's accounting system.

Women, Infants, and Children Program

The department receives funding from the federal government to operate the Supplemental Nutrition for Women, Infants, and Children (WIC) program. Under the WIC program, the department provides vouchers to eligible households to purchase specific food items. To administer the program, the department contracts with local organizations that determine eligibility of participants and issue vouchers to clients. The department spent \$13,567,700 and \$13,868,232 of federal WIC assistance in fiscal years 2003-04 and 2004-05, respectively. The following seven sections discuss compliance concerns with the WIC program.

Local Agency Monitoring

The department delayed issuance of WIC local agency monitoring reports and omitted federally required oversight during on-site visits.

Federal regulations specify that the state agency administering the WIC program shall conduct monitoring reviews of each local agency at least once every two years, and shall promptly notify local agencies of findings of non-compliance with program requirements identified in the monitoring review. Monitoring reviews must cover program elements outlined by the federal government, including reviewing local agency financial reports, financial management systems, and nutrition clinics.

Findings and Recommendations

Completeness of Monitoring Process

We reviewed the department's monitoring log. The log showed department staff conducted all of the visits scheduled. For the 32 monitoring visits completed by department staff, we noted 19 reports had been sent to the local agency for corrective action, two reports were in process, and 11 reports had not been drafted or sent to the local agencies for corrective action. Ten of the 11 incomplete reports were missing information from only one portion of the review. Of the 19 complete reports, only 11 were sent to the local agencies within 60 days of the monitoring visit. State WIC procedures define 60 days as a prompt return of a monitoring report.

The department did not review local agency financial reports and financial management systems at any of the 32 visits. Federal regulations require the department to verify local agency financial reports and evaluate financial management systems as part of the on-site review. Staff indicated the department decided to focus on other elements of the review.

Clinic Monitoring

Local agencies conduct clinics to instruct WIC recipients on nutrition. Federal regulations require the department to perform on-site reviews of twenty percent of the clinics in each local agency, or at least one clinic, whichever is greater. We reviewed 10 local agency monitoring files, seven of which had clinics. In those seven agencies, the department did not review the minimum number of clinics. Department staff indicated clinics in Montana are open only a few days each month, which makes scheduling clinic visits during local agency monitoring reviews difficult to coordinate. Making a second trip to review the clinics would be costly to the program, department staff said.

Findings and Recommendations

Recommendation #4

We recommend the department:

- A. Promptly notify a local agency of any finding identified during a monitoring review, in accordance with federal regulations.**
- B. Review local agency financial reports and evaluate financial management systems during monitoring reviews, in accordance with federal regulations.**
- C. Perform reviews of nutrition clinics in each local agency in accordance with federal regulations.**

Corrective Action Plans

The department does not track submission of corrective action plans by local WIC agencies.

Upon the completion of a monitoring review, the department notifies a local agency of findings identified. The department requests a corrective action plan to address the findings discussed in the report. Corrective action plans are reviewed and approved by department personnel.

Per federal regulations, the department must require the local agency to submit a corrective action plan within 60 days of receipt of the department's findings. During our audit, the department sent 19 monitoring review reports to the local agencies. Of the 19 reports, two had not passed the 60 day mark, nine corrective action plans had been received and approved by the department, one corrective action plan had been received but was not approved, and seven corrective action plans had not been received within 60 days. Department staff said they used to track the receipt of all corrective action plans, but the position responsible for the tracking had been vacant for some time.

Findings and Recommendations

Recommendation #5

We recommend the department obtain corrective action plans from the local agencies within 60 days of the date the findings reports were received by the local agencies.

Tracking Vouchers

When the department reissued WIC benefits, department personnel did not follow procedures to ensure initial issuance was voided.

To provide WIC assistance, the department issues vouchers to clients. The clients exchange these vouchers at grocery stores for specific food products. Federal regulations require the department to account for the disposition of all vouchers as either issued or voided, and when issued, as either redeemed or unredeemed. The department uses a computer system to track the redemption of WIC vouchers.

For vouchers voided or reissued, the department requires each local agency to submit a void/reissue receipt. This document informs the department of the reason why vouchers were voided and reissued. To complete the procedure, department personnel match the reasons with the identified voids on a daily report, and investigate instances that do not appear reasonable. With this procedure, the department can detect instances where clients receive benefits in excess of those allowable. In the 12 months from June 2004 to May 2005, department personnel did not perform the match procedure. As a result, vouchers could have been reissued to clients without the initial issuances being voided and the dual issuance would not have been detected.

In our previous two audits, we recommended the department complete and document reviews of WIC reports identifying voided and reissued vouchers. The department did not implement the recommendation.

Findings and Recommendations

Recommendation #6

We recommend the department complete and document reviews of voided and reissued WIC vouchers.

Dual Certification

The department did not follow its control procedure to prevent WIC clients from receiving benefits more than once a month.

Federal regulations require the department to prevent participants from receiving WIC benefits more than once each month. To implement this requirement, existing department procedures specify that the department will prepare a report from its records monthly to identify clients who have been certified to receive WIC benefits more than once during that month.

During the audit period, the department ran and reviewed this report eight out of 24 months. No reports had been reviewed for fiscal year 2005. As a result, the department did not comply with the federal requirements to identify dual certification in WIC by clients. By not reviewing activity reports, the department raises the risk that clients receiving WIC benefits more than once a month will not be detected. Department staff cited time constraints and frustration with the computer system used to track WIC activity as reasons why the reports were not reviewed.

In our previous audit, we recommended the department run and review its WIC dual certification report monthly to ensure detection of dual participation by clients and allow correction in a timely manner. The department did not implement the recommendation.

Recommendation #7

We recommend the department run and review its WIC dual certification report monthly to detect dual participation by clients.

Findings and Recommendations

Compliance Investigations

Compliance investigations of WIC vendors are not performed according to federal regulations.

The department issues vouchers to clients. The clients exchange these vouchers at grocery stores for specific food products. As vendors of the WIC products, the stores price the products, fill the orders on the vouchers, and submit the vouchers to a clearing agent for payment. Federal regulations require the department to identify high-risk vendors at least annually, based on criteria established by the department. Federal regulations also require the department to conduct annual compliance investigations on a minimum of 5 percent of authorized vendors, concentrating on high-risk vendors. A high-risk vendor is a vendor identified as having a high risk of violating federal regulations using federal or statistically based state criteria. Although the department has responded to complaints about certain vendors, it has not conducted compliance investigations or assessed the risk of non-compliance by vendors as required by federal regulations. WIC program personnel said they lack the staff resources to perform the vendor compliance investigations. Although we believe the risk of overpricing WIC products could be assessed centrally with data used in calculating product rebates, the recently increased requirement for compliance investigations requires a minimum of 12 of the 235 active vendors be investigated each year.

Recommendation #8

We recommend the department conduct annual compliance investigations of WIC vendors as required by federal regulations.

Contract Reimbursements

The department paid certain WIC administrative costs of a local agency without having a pre-approved indirect cost plan.

Contracts between the department and local organizations for administering the WIC program cover a specific federal fiscal year.

Findings and Recommendations

Contracts stipulate indirect costs up to a maximum of 25 percent of the contract amount may be recovered for costs incurred for common or joint objectives, so long as an indirect cost plan is developed and pre-approved by the department. On the last day of federal fiscal year 2004, the department approved and paid an indirect cost reimbursement request for a local organization even though no indirect cost recovery plan was in place. Department staff indicated the indirect cost reimbursement should not have been approved.

Recommendation #9

We recommend the department limit indirect cost payments to WIC agencies to those payments supported by a pre-approved indirect cost plan.

Timeliness of WIC Expenditures Reimbursements

Department did not pay bills in 30 days.

Local agencies submit monthly WIC expenditure reports to the department. These reports support requests for reimbursement of local agency WIC administration costs. Section 17-8-242, MCA, requires the department to pay simple interest at the rate of 0.05 percent each day on amounts due for supplies and services received if payment is not made within 30 days after receipt of a properly completed invoice, so long as a different reimbursement schedule is not specified by the contract.

We reviewed reimbursements made to 10 local agencies and noted seven instances in which the department processed reimbursement payments after the 30-day time period had passed. None of these seven late payments included interest due to the local agencies. We calculated the total interest due on these seven reimbursements to be \$189. Department staff pointed to staff absences as the reason for untimely reimbursement payments.

Recommendation #10

We recommend the department process payments to local agencies in compliance with section 17-8-242, MCA.

Findings and Recommendations

Vocational Rehabilitation

The Department of Public Health and Human Services received federal assistance for its vocational rehabilitation program of \$10,593,528 and \$10,373,087 in fiscal years 2003-04 and 2004-05, respectively. In the following two sections, we discuss instances where the department can improve compliance with federal requirements related to recording vocational rehabilitation costs in the proper period and accurately reporting those costs.

Limiting Expenditures to the Grant Period

The department expended grant funds for costs incurred after the period stated in the grant.

Federal regulations for vocational rehabilitation assistance require that the grant for each federal fiscal year be obligated in the year of the award and expenditures be paid by the end of the subsequent year. If an obligation is for personal services by an employee of the state, the obligation is made when the services are performed. We found the department charged vocational rehabilitation payroll expenditures to the federal fiscal year 2003 (October 1, 2002 through September 30, 2003) grant through the pay period ending February 21, 2004. For federal fiscal year 2004 (October 1, 2003 through September 30, 2004) grant, payroll charges were recorded through the pay period ending February 21, 2005. As a result, payroll expenditures were overcharged by \$17,489 and \$1,780 for federal fiscal years 2003 and 2004, respectively. We question \$19,269 in payroll costs charged to these grants.

A budget analyst said the department did not deactivate accounting system codes linking the payroll expenditure to the account for the previous year's federal grant. Consequently, these expenses could still post to the prior year grant. In addition, regional supervisors, who are required to review employee timesheets and accounts charged, did not detect the errors, the analyst said.

In our previous audit, we recommended the department limit payroll charges to those incurred within a grant period. The department responded by finding errors and posting adjustments to the accounting records later in the state fiscal year. However, the department did not correct the state's accounting records prior to

Findings and Recommendations

filing the annual report. By changing the link for payroll expenditures at the end of the federal fiscal year, the department can ensure expenditures are charged to the proper grant.

Recommendation #11

We recommend the department charge payroll costs to the proper federal grant.

Financial Reporting

Vocational Rehabilitation federal report contains outdated information.

The department submits the RSA-2 Program Cost Report for the Vocational Rehabilitation Services Program each federal fiscal year. We noted that the federal fiscal year 2004 RSA-2 report was submitted with five line items reporting the same numbers as the federal fiscal year 2003 report. The errors totaled \$164,075 and netted to a \$92,226 overstatement of reported expenditures. Department personnel said the previous year's numbers were reported in error. In our previous audit, we reported a similar error on the federal fiscal year 2002 report. The department prepared the fiscal year 2003 report correctly. A comparison of reported expenditures to expenditures on the state's accounting records for the period would have detected the error.

Recommendation #12

We recommend the department implement a procedure to review the Vocational Rehabilitation RSA-2 report to ensure the correct expenditures are reported.

Medicaid

The department administers the Medicaid program to provide medical services to low income individuals in Montana. Department personnel prepare, and federal officials approve, a state plan documenting the services that will be provided to Medicaid clients in Montana. The department adopts regulations through the state rule-making process to implement provisions of the Medicaid plan. In addition, the department observes specific requirements in federal

Findings and Recommendations

laws and regulations in operating the Medicaid program. In the following four sections, we discuss instances where department compliance and controls related to Medicaid program administration can be improved.

Inpatient Hospital Overpayments

The department did not follow state regulations in collecting Medicaid hospital overpayments.

The department pays for inpatient hospital services of Medicaid eligible clients through the use of rates based on the costs incurred by providers. Inpatient hospital providers paid under a cost based contract are required to submit a cost report to the department each year. The department uses data from the cost report to determine whether the state has overpaid or underpaid the provider. When department personnel detect an overpayment, they notify the provider and establish a receivable on the state's accounting records.

State regulations require the department to notify the provider that an overpayment exists and, within 30 days after notification, arrange to recover the overpayment by off-setting against amounts paid for hospital services or from repayments from the provider. Regulations also require the department to make deductions from payments with full recovery to be completed within 60 days from the date of the initial request for payment.

The department's fiscal division completes a monthly reconciliation of the accounts receivables. We tested the twelve receivables on the March 2005 reconciliation and found the department did not comply with state regulations related to recovery on any of the overpayments listed.

According to the department official assigned cost recovery duties, withholding overpayments from current billings is used only if the provider requests the department withhold future payments. When the provider does not refund the overpayment, the department sends the provider additional notices or makes payment arrangements, the official said.

Findings and Recommendations

Recommendation #13

We recommend the department comply with state regulations concerning the collection of Medicaid overpayments to inpatient hospitals.

Hospital Cost Reports

The department does not have a mechanism to determine whether hospital cost reports are submitted timely.

The Medicaid state plan and department administrative rules require inpatient hospital facilities to file cost reports with the department within 150 days of the facility's fiscal year-end. In fiscal year 2003-04, five facilities did not submit cost reports within the 150 day requirement. Although the cost reports were due in October and November of 2004 and February of 2005, the facilities had not submitted them as of May 2005.

We noted department procedures do not include logging the date on which the department receives cost reports from the providers. As a result, the department does not document whether hospitals submit cost reports within 150 days. The program officer who reviews cost reports said the review schedule often lags several months behind the due date, so late reports have not delayed the reviews.

Recommendation #14

We recommend the department develop procedures to document the receipt of cost reports to achieve compliance with state regulations and the approved state Medicaid plan.

Disabilities Services Invoices

Reviews of provider invoices do not verify the quantity of services billed.

Disability services facilities contract with the department to provide specific services to Medicaid eligible recipients. The provider bills the department monthly for the services performed. Federal regulations state that costs billed to Medicaid must be for a service

Findings and Recommendations

allowed by the State plan and waiver agreements, and supported by evidence that the service was actually provided.

The department sends a billing form to the disability services provider listing the clients and the services referenced in the contract. The provider fills in the units of service provided to each client during the month and submits the bill to the regional office of the department's Disability Services Division (DSD). According to DSD management, regional administrative assistants verify and authorize the provider invoice. However, we found that only one of five of the regional administrative assistants verifies units of service charged on the provider invoices.

Administrative assistants that we contacted at the other four regions stated that they do not receive supporting documentation with the bill and have no way of verifying the services billed were actually performed. One of these four administrative assistants placed reliance on monitoring reviews performed at the providers by DSD quality improvement specialists. We asked five of the 16 quality improvement specialists, one from each of the five regions, whether they verify invoices during their review. Only one confirmed performing invoice verification.

A DSD official who supervises the reviews performed by quality improvement specialists stated that invoice verification was a required part of the review process. However, four of the five specialists we contacted did not know that verifying services billed were actually provided was part of the review process. As a result, the department has not implemented controls to verify that services billed by disabilities services providers were actually provided to clients.

Recommendation #15

We recommend the department communicate management's expectations regarding disability services provider invoice reviews to regional administrative assistants and quality improvement specialists.

Findings and Recommendations

Drug Utilization Data

The department does not submit Medicaid drug utilization data within 60 days.

Medicaid enabling legislation allows the state to obtain rebates for drug purchases reimbursed by Medicaid. Federal regulations require the department to provide drug utilization data to drug manufacturers no later than 60 days after the end of each quarter so the drug rebate can be calculated. According to department personnel, the department does not consistently provide manufacturers with drug utilization data within 60 days. A department official said rebate data sent to drug manufacturers depends on drug pricing information provided by the federal government that usually arrives 45 days after the end of the quarter. This compresses the remaining tasks involved in preparing the drug utilization data into a two-week period. One way to enable more timely submission of data is to work with the federal agency to obtain the necessary data sooner.

Recommendation #16

We recommend the department provide drug utilization data to manufacturers within 60 days after the end of the quarter as required by federal regulations.

Food Program Applications

Documentation of provider eligibility for food program is incomplete.

The department assists day care operators in providing food to clients through its Child and Adult Care Feeding Program. Federal regulations require that each state receiving assistance from the program establish an application procedure to determine the eligibility of participating institutions and facilities. In addition, regulations state that the application must be accompanied by supporting documentation.

To track the completeness of applications, department policy requires that a checklist be placed in the file to log the receipt of

Findings and Recommendations

application documentation. In reviewing the application files, we noted that

- ▶ six of the 15 files reviewed did not have copies of the checklist;
- ▶ two of the six files of feeding centers reviewed did not have evidence of sample menus required as part of the application process.

A department supervisor said program staff turnover had occurred and new staff had not realized that the checklists should be placed in the file with the application. The supervisor also said that some personnel did not know that the menus reviewed during the application process should be retained.

Recommendation #17

We recommend the department file checklists and application documentation in the Child and Adult Care Feeding Program provider files in accordance with state and federal regulations.

Debarred Parties

The department did not implement its procedures regarding prevention of contracting with debarred parties.

Federal regulations prohibit the department from contracting with parties that are suspended or debarred from participating in federal programs. The department adopted a policy to prevent contracting with parties that have been suspended and debarred from participating in federal programs. As part of this policy, department contract managers are to sign and date a form certifying that the official federal listing of debarred parties has been reviewed prior to executing the contract.

We found no certification forms in the 15 contract files that we reviewed. Although the department adopted its policy in March 2003, department personnel have not implemented it. Without certification forms in the file, the department lacks documentation that staff checked the federal debarment website prior to executing a

Findings and Recommendations

contract, thereby increasing the risk of contracting with suspended and debarred parties.

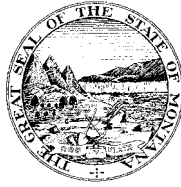
Recommendation #18

We recommend the department implement its policy to prevent contracting with parties that have been suspended and debarred from participating in federal programs.

Independent Auditor's Report & Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2005, and 2004. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2005, and 2004, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 22, 2005

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2004	\$ <u>(17,299,938)</u>	\$ <u>5,997,707</u>	\$ <u>(4,842,689)</u>	\$ <u>4,079,921</u>	\$ <u>(232)</u>	\$ <u>46,762,263</u>
PROPERTY HELD IN TRUST: July 1, 2004					\$ <u>1,485,709</u>	
ADDITIONS						
Budgeted Revenues & Transfers-In	15,590,740	39,950,127	751,345,107			
NonBudgeted Revenues & Transfers-In	116,152	10,724,352	87,110,632	3,031,399		15,005,274
Prior Year Revenues & Transfers-In Adjustments	360,317	242,077	5,308,189	(7,912)		
Direct Entries to Fund Balance	258,176,304	37,272,523	1,669,955			
Additions to Property Held in Trust					75,738,979	
Total Additions	<u>274,243,513</u>	<u>88,189,079</u>	<u>845,433,883</u>	<u>3,023,487</u>	<u>75,738,979</u>	<u>15,005,274</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	276,895,775	61,839,329	838,428,076			
NonBudgeted Expenditures & Transfers-Out	646,718	13,127,395	569,094	2,949,352		3,202,336
Prior Year Expenditures & Transfers-Out Adjustments	1,287,801	(350,068)	3,535,155			
Reductions in Property Held in Trust					75,788,204	
Total Reductions	<u>278,830,294</u>	<u>74,616,656</u>	<u>842,532,325</u>	<u>2,949,352</u>	<u>75,788,204</u>	<u>3,202,336</u>
FUND BALANCE: June 30, 2005	\$ <u>(21,886,719)</u>	\$ <u>19,570,130</u>	\$ <u>(1,941,131)</u>	\$ <u>4,154,056</u>	\$ <u>(232)</u>	\$ <u>58,565,201</u>
PROPERTY HELD IN TRUST: June 30, 2005					\$ <u>1,436,484</u>	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2003	\$ <u>(13,774,402)</u>	\$ <u>6,283,888</u>	\$ <u>(3,066,958)</u>	\$ <u>4,203,196</u>	\$ <u>(0)</u>	\$ <u>37,907,986</u>
PROPERTY HELD IN TRUST: July 1, 2003					\$ <u>1,338,492</u>	
ADDITIONS						
Budgeted Revenues & Transfers-In	19,498,791	48,888,222	729,679,520			
NonBudgeted Revenues & Transfers-In	504,806	9,047,834	123,450,652	2,872,603		11,524,106
Prior Year Revenues & Transfers-In Adjustments	1,169,255	(852,435)	(836,554)			22,189
Direct Entries to Fund Balance	226,317,775	19,490,385	1,915,638		(232)	
Additions to Property Held in Trust					82,088,269	
Total Additions	<u>247,490,627</u>	<u>76,574,006</u>	<u>854,209,256</u>	<u>2,872,603</u>	<u>82,088,037</u>	<u>11,546,295</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	251,026,865	55,497,626	811,855,597			
NonBudgeted Expenditures & Transfers-Out	893,833	21,682,119	46,005,562	2,995,878		2,669,829
Prior Year Expenditures & Transfers-Out Adjustments	(904,535)	(319,558)	(1,876,172)			22,189
Reductions in Property Held in Trust					81,941,052	
Total Reductions	<u>251,016,163</u>	<u>76,860,187</u>	<u>855,984,987</u>	<u>2,995,878</u>	<u>81,941,052</u>	<u>2,692,018</u>
FUND BALANCE: June 30, 2004	\$ <u>(17,299,938)</u>	\$ <u>5,997,707</u>	\$ <u>(4,842,689)</u>	\$ <u>4,079,921</u>	\$ <u>(232)</u>	\$ <u>46,762,263</u>
PROPERTY HELD IN TRUST: June 30, 2004					\$ <u>1,485,709</u>	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Permanent Fund	TOTAL
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 83,520	\$ 686,708				\$ 770,228
Charges for Services	12,909,790	14,509,703	\$ 130,598			27,550,091
Investment Earnings	8,108	33	31,817	\$ 232,583	\$ 3,856,759	4,129,300
Fines, Forfeits and Settlements	2,514	13,264,645	25,351		10,828,281	24,120,791
Sale of Documents, Merchandise and Property	1,538	188,419	57			190,014
Rentals, Leases and Royalties	28,449	11,260				39,709
Miscellaneous	21,167	262,960	34,276			318,403
Grants, Contracts, Donations and Abandonments		11,544,052				11,544,052
Other Financing Sources	3,010,707	9,478,478	111,071	2,790,904	320,234	15,711,394
Federal	1,416	970,298	843,430,758			844,402,472
Total Revenues & Transfers-In	16,067,209	50,916,556	843,763,928	3,023,487	15,005,274	928,776,454
Less: Nonbudgeted Revenues & Transfers-In	116,152	10,724,352	87,110,632	3,031,399	15,005,274	115,987,809
Prior Year Revenues & Transfers-In Adjustments	360,317	242,077	5,308,189	(7,912)		5,902,671
Actual Budgeted Revenues & Transfers-In	15,590,740	39,950,127	751,345,107	0	0	806,885,974
Estimated Revenues & Transfers-In	17,752,100	69,643,145	911,438,641			998,833,886
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (2,161,360)	\$ (29,693,018)	\$ (160,093,534)	\$ 0	\$ 0	\$ (191,947,912)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$ (96,471)	\$ 120,270				\$ 23,799
Charges for Services	(4,948,401)	(2,283,228)	\$ (3,210,474)			(10,442,103)
Investment Earnings	(10,183)	33	31,817			21,667
Fines, Forfeits and Settlements	2,364	(911,055)	25,351			(883,340)
Sale of Documents, Merchandise and Property	(1,362)	7,058	(943)			4,753
Rentals, Leases and Royalties	(8,551)	9,976				1,425
Miscellaneous	6,805	(191,993)	(1,578,182)			(1,763,370)
Grants, Contracts, Donations and Abandonments		(5,482,978)				(5,482,978)
Other Financing Sources	2,893,230	(9,031,271)	(28,861,312)			(34,999,353)
Federal	1,209	(11,929,830)	(126,499,791)			(138,428,412)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (2,161,360)	\$ (29,693,018)	\$ (160,093,534)	\$ 0	\$ 0	\$ (191,947,912)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Permanent Fund	TOTAL
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 72,166	\$ 650,795				\$ 722,961
Charges for Services	19,076,609	12,742,527	\$ 160,701			31,979,837
Investment Earnings	8,583	5	15,209	\$ 240,118	\$ 588,294	852,209
Fines, Forfeits and Settlements	9,360	13,069,316	13,821		10,668,829	23,761,326
Sale of Documents, Merchandise and Property	969	173,415				174,384
Rentals, Leases and Royalties	35,710					35,710
Miscellaneous	31,648	91,333	15,763			138,744
Grants, Contracts, Donations and Abandonments		8,118,877				8,118,877
Other Financing Sources	1,937,795	21,543,495	46,124,681	2,632,485	289,172	72,527,628
Federal	12	693,858	805,963,443			806,657,313
Total Revenues & Transfers-In	<u>21,172,852</u>	<u>57,083,621</u>	<u>852,293,618</u>	<u>2,872,603</u>	<u>11,546,295</u>	<u>944,968,989</u>
Less: Nonbudgeted Revenues & Transfers-In	504,806	9,047,834	123,450,652	2,872,603	11,524,106	147,400,001
Prior Year Revenues & Transfers-In Adjustments	<u>1,169,255</u>	<u>(852,435)</u>	<u>(836,554)</u>		<u>22,189</u>	<u>(497,545)</u>
Actual Budgeted Revenues & Transfers-In	<u>19,498,791</u>	<u>48,888,222</u>	<u>729,679,520</u>	<u>0</u>	<u>0</u>	<u>798,066,533</u>
Estimated Revenues & Transfers-In	<u>18,664,600</u>	<u>93,341,689</u>	<u>878,789,779</u>			<u>990,796,068</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 834,191</u>	<u>\$ (44,453,467)</u>	<u>\$ (149,110,259)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (192,729,535)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$ (107,833)	\$ 95,794				\$ (12,039)
Charges for Services	1,002,982	(3,451,867)	\$ (3,169,630)			(5,618,515)
Investment Earnings	(9,417)	6	13,209			3,798
Fines, Forfeits and Settlements	9,210	(759,954)	13,821			(736,923)
Sale of Documents, Merchandise and Property	(931)	284				(647)
Rentals, Leases and Royalties	(1,290)					(1,290)
Miscellaneous	(58,366)	(14,160,043)	(1,941,249)			(16,159,658)
Grants, Contracts, Donations and Abandonments		(8,082,409)				(8,082,409)
Other Financing Sources	(176)	(7,898,758)	(28,787,091)			(36,686,025)
Federal	12	(10,196,520)	(115,239,319)			(125,435,827)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 834,191</u>	<u>\$ (44,453,467)</u>	<u>\$ (149,110,259)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (192,729,535)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADDICTIVE & MENTAL DISORDERS	CHILD & ADULT HEALTH RESOURCES	CHILD & FAMILY SERVICES	CHILD SUPPORT ENFORCEMENT	DIRECTOR'S OFFICE	DISABILITY SERVICES DIVISION	FISCAL SERVICES DIVISION	HUMAN & COMMUNITY SERVICES	OPERATIONS & TECHNOLOGY	PUBLIC HEALTH & SAFETY DIVISION	QUALITY ASSURANCE DIVISION	SENIOR & LONG-TERM CARE	TOTAL
Personal Services													
Salaries	\$ 17,666,932	\$ 2,118,897	\$ 11,258,375	\$ 5,497,595	\$ 2,235,245	\$ 15,770,003	\$ 1,780,120	\$ 13,437,436	\$ 3,357,962	\$ 5,653,122	\$ 4,060,145	\$ 5,527,222	\$ 88,363,054
Hourly Wages	(100)					10,914							10,814
Other Compensation						10,500							10,500
Employee Benefits	7,598,385	639,270	3,697,149	1,784,605	392,717	6,233,996	505,995	4,593,334	997,743	1,713,567	1,216,074	2,246,862	31,619,697
Total	25,265,217	2,758,167	14,955,524	7,282,200	2,627,962	22,025,413	2,286,115	18,030,770	4,355,705	7,366,689	5,276,219	7,774,084	120,004,065
Operating Expenses													
Other Services	4,836,149	9,265,651	1,077,795	764,374	432,886	3,872,529	2,532,806	3,044,509	19,369,853	17,958,864	702,007	3,493,064	67,350,487
Supplies & Materials	3,065,778	106,341	235,822	142,251	34,416	970,802	114,841	315,378	241,494	2,852,050	47,728	835,287	8,962,188
Communications	138,260	119,439	444,867	623,673	27,552	355,315	27,069	853,084	850,599	365,896	108,196	148,608	4,062,558
Travel	152,996	65,299	547,104	17,225	51,335	250,504	6,819	290,409	28,226	572,851	241,786	124,541	2,349,095
Rent	559,823	109,469	1,427,438	523,282	92,969	723,649	67,804	1,482,177	312,881	418,187	423,671	206,645	6,347,995
Utilities	972,441		15,004	25		398,706	21	81,073	213	897	301	212,755	1,681,436
Repair & Maintenance	197,758	8,027	61,832	44,856	8,556	175,208	5,342	125,083	113,245	106,619	7,644	116,904	971,074
Other Expenses	1,012,645	8,973,372	5,078,714	4,379,163	(2,792,995)	2,825,187	(3,827,154)	11,028,080	(25,585,327)	1,657,728	(911,204)	1,659,748	3,497,957
Goods Purchased For Resale	117,893					53,392							171,285
Total	11,053,743	18,647,598	8,888,576	6,494,849	(2,145,281)	9,625,292	(1,072,452)	17,219,793	(4,668,816)	23,933,092	620,129	6,797,552	95,394,075
Equipment & Intangible Assets													
Equipment	59,473					22,029		44,689	50,033	380,316			556,540
Capital Leases-Equipment-Nonbudgeted	6,623								102,101				108,724
Intangible Assets						24				30,641			30,665
Total	66,096					22,053		44,689	152,134	410,957			695,929
Capital Outlay													
Land & Interest In Land							3,823						3,823
Buildings										41,275			41,275
Other Improvements								35,236					35,236
Total							3,823	35,236		41,275			80,334
Local Assistance													
From State Sources	1,617,906												1,617,906
Total	1,617,906												1,617,906
Grants													
From State Sources	2,479,304									26,673		907,031	3,413,008
From Federal Sources	8,577,974		6,580,542					14,002,916		7,216,329	323,800	6,679,580	43,381,141
From Other Sources										535,768			535,768
Total	11,057,278		6,580,542					14,002,916		7,778,770	323,800	7,586,611	47,329,917
Benefits & Claims													
To Individuals	39,022,098	409,448,198	25,263,446			92,529,517		71,833,729		(524)		182,679,616	820,776,080
From State Sources												45,863	45,863
From Federal Sources								87,783,665		9,559,817			97,343,482
Total	39,022,098	409,448,198	25,263,446			92,529,517		159,617,394		9,559,293		182,725,479	918,165,425
Transfers													
Accounting Entity Transfers	1,785,072					1,005,833		143,276	9,259,936	295,000		2,896,587	15,385,704
Total	1,785,072					1,005,833		143,276	9,259,936	295,000		2,896,587	15,385,704
Debt Service													
Bonds	1,918,584					1,023,981							2,942,565
Loans	17,087		2,120										19,207
Capital Leases			169				7,079					2,947	10,195
Installment Purchases	90,594	2,282	89,775		8,361	(65)	14,931		279,697			66	485,641
Total	2,026,265	2,282	92,064		8,361	1,023,916	22,010		279,697			3,013	3,457,608
Total Expenditures & Transfers-Out	\$ 91,893,675	\$ 430,856,245	\$ 55,780,152	\$ 13,777,049	\$ 491,042	\$ 126,232,024	\$ 1,239,496	\$ 209,094,074	\$ 9,378,656	\$ 49,343,801	\$ 6,261,423	\$ 207,783,326	\$ 1,202,130,963
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 39,220,925	\$ 93,910,243	\$ 24,853,813	\$ 1,964,655	\$ 66,388	\$ 43,146,858	\$ 1,209,303	\$ 27,142,675	\$ 102,128	\$ 2,053,465	\$ 1,581,562	\$ 43,578,279	\$ 278,830,294
State Special Revenue Fund	12,460,281	18,252,557	1,861,729	2,704,684	20,308	2,523,125	1,889	2,928,863	6,532,294	6,798,097	84,069	20,448,760	74,616,656
Federal Special Revenue Fund	38,293,884	318,693,445	29,064,610	9,107,710	404,346	79,531,274	28,304	179,022,536	(458,102)	40,492,239	4,595,792	143,756,287	842,532,325
Debt Service Fund	1,918,585					1,030,767							2,949,352
Permanent Fund									3,202,336				3,202,336
Total Expenditures & Transfers-Out	91,893,675	430,856,245	55,780,152	13,777,049	491,042	126,232,024	1,239,496	209,094,074	9,378,656	49,343,801	6,261,423	207,783,326	1,202,130,963
Less: Nonbudgeted Expenditures & Transfers-Out	3,038,597	11,294,777	4,963,053	4,220,130	(2,883,476)	2,865,688	(4,114,507)	12,320,067	(16,402,538)	1,878,242	(913,544)	4,228,406	20,494,895
Prior Year Expenditures & Transfers-Out Adjustments	873,797	6,654,509	75,583	36,936	56,031	(527,907)	(12,417)	(686,545)	4,527	(982,271)	(50,377)	(968,978)	4,472,888
Actual Budgeted Expenditures & Transfers-Out	87,981,281	412,906,959	50,741,516	9,519,983	3,318,487	123,894,243	5,366,420	197,460,552	25,776,667	48,447,830	7,225,344	204,523,898	1,177,163,180
Budget Authority	90,464,574	433,735,794	53,169,229	10,313,907	11,009,219	130,496,162	5,614,974	206,959,445	27,607,040	54,961,414	7,647,933	219,391,373	1,251,371,064
Unspent Budget Authority	\$ 2,483,293	\$ 20,828,835	\$ 2,427,713	\$ 793,924	\$ 7,690,732	\$ 6,601,919	\$ 248,554	\$ 9,498,893	\$ 1,830,373	\$ 6,513,584	\$ 422,589	\$ 14,867,475	\$ 74,207,884
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 374,557	\$ 455,053	\$ 310,465	\$ 25,794	\$ 55,832	\$ 328,799	\$ 31,285	\$ 22,082	\$ 228,838	\$ 6,880	\$ 62,228	\$ 122,180	\$ 2,023,993
State Special Revenue Fund	707,525	3,077,035	185,716	435,811	732,855	264,036	102,475	360,316	678,354	659,896	189,660	3,092,277	10,485,956
Federal Special Revenue Fund	1,401,211	17,296,747	1,931,532	332,319	6,902,045	6,009,084	114,794	9,116,495	923,181	5,846,808	170,701	11,653,018	61,697,935
Unspent Budget Authority	\$ 2,483,293	\$ 20,828,835	\$ 2,427,713	\$ 793,924	\$ 7,690,732	\$ 6,601,919	\$ 248,554	\$ 9,498,893	\$ 1,830,373	\$ 6,513,584	\$ 422,589	\$ 14,867,475	\$ 74,207,884

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADDICTIVE & MENTAL DISORDERS	CHILD & ADULT HEALTH RESOURCES	CHILD & FAMILY SERVICES	CHILD SUPPORT ENFORCEMENT	DIRECTOR'S OFFICE	DISABILITY SERVICES DIVISION	FISCAL SERVICES DIVISION	HEALTH POLICY & SERVICES DIVISION	HUMAN AND COMMUNITY SERVICES	OPERATIONS & TECHNOLOGY	QUALITY ASSURANCE DIVISION	SENIOR & LONG-TERM CARE	TOTAL
Personal Services													
Salaries	\$ 17,557,155	\$ 1,786,869	\$ 10,248,389	\$ 5,232,001	\$ 2,216,840	\$ 16,951,970	\$ 1,699,014	\$ 5,428,089	\$ 13,255,714	\$ 3,193,309	\$ 3,917,069	\$ 5,062,936	\$ 86,549,355
Hourly Wages						12,444			219				12,663
Other Compensation						3,000		(458)					2,542
Employee Benefits	6,787,322	504,882	3,194,858	1,591,941	379,827	6,620,668	489,498	1,559,169	4,328,696	897,890	1,111,367	1,916,658	29,382,776
Total	24,344,477	2,291,751	13,443,247	6,823,942	2,596,667	23,588,082	2,188,512	6,986,800	17,584,629	4,091,199	5,028,436	6,979,594	115,947,336
Operating Expenses													
Other Services	4,257,702	5,431,503	756,800	867,021	643,616	5,423,044	2,296,762	17,135,384	2,385,656	21,915,587	1,375,590	3,412,022	65,900,687
Supplies & Materials	2,974,563	129,898	703,692	139,453	60,078	1,198,591	102,100	2,707,740	561,649	804,008	822,537		10,413,588
Communications	131,120	55,347	474,206	701,134	34,968	341,381	24,390	330,390	783,323	892,919	127,467	137,671	4,034,316
Travel	99,503	47,049	407,787	33,176	47,367	222,597	4,316	573,366	249,321	28,274	224,288	128,078	2,065,122
Rent	534,546	94,418	1,279,004	429,656	78,131	709,509	64,692	415,713	1,482,066	308,517	415,499	233,973	6,045,724
Utilities	936,307	(13)	23,168			323,505	18	942	96,021	87	778	194,772	1,575,585
Repair & Maintenance	197,497	25,108	66,405	52,169	4,972	211,969	5,480	122,119	146,493	102,958	9,273	146,607	1,091,051
Other Expenses	285,229	32,035	109,122	586,076	35,727	984,394	288,608	340,792	74,169	220,036	17,122	303,139	3,276,449
Goods Purchased For Resale	110,427		(247)			49,684		(691)				9	159,182
Total	9,526,895	5,815,345	3,819,937	2,808,685	904,859	9,464,674	2,786,366	21,625,755	5,778,698	24,272,386	2,379,296	5,378,808	94,561,704
Equipment & Intangible Assets													
Equipment	41,010			24,400		34,633		132,348	183,276	7,405	8,759	69,036	500,867
Total	41,010			24,400		34,633		132,348	183,276	7,405	8,759	69,036	500,867
Local Assistance													
From State Sources	1,390,935												1,390,935
Total	1,390,935												1,390,935
Grants													
From State Sources	2,412,185							499,846				936,111	3,848,142
From Federal Sources	5,778,758	19	5,774,267		824			6,008,159	14,361,433		291,655	6,821,991	39,037,106
From Other Sources								620,406	3,009				623,415
Total	8,190,943	19	5,774,267		824			7,128,411	14,364,442		291,655	7,758,102	43,508,663
Benefits & Claims													
To Individuals	32,567,234	375,791,790	23,458,913			94,260,696		275,220	67,107,489			177,709,515	771,170,857
From State Sources												55,037	55,037
From Federal Sources								9,068,733	78,143,132				87,211,865
Other Financing Uses/Deduction						11,271,429							11,271,429
Total	32,567,234	375,791,790	23,458,913			105,532,125		9,343,953	145,250,621			177,764,552	869,709,188
Transfers													
Accounting Entity Transfers	2,940,383	10,976,780	13,612,308	3,979,972	(1,409,751)	4,852,951	(934,339)	1,982,449	21,222,655	225,888	196,802	2,352,107	59,998,205
Total	2,940,383	10,976,780	13,612,308	3,979,972	(1,409,751)	4,852,951	(934,339)	1,982,449	21,222,655	225,888	196,802	2,352,107	59,998,205
Debt Service													
Bonds	1,918,038					1,415,491							3,333,529
Loans	13,092		3,092			107			551				16,842
Capital Leases							7,331					4,158	11,489
Installment Purchases	66,586	2,282	85,595		8,281	10,582	25,712	37,587		322,095		11,755	570,475
Total	1,997,716	2,282	88,687		8,281	1,426,180	33,043	37,587	551	322,095		15,913	3,932,335
Total Expenditures & Transfers-Out	\$ 80,999,593	\$ 394,877,967	\$ 60,197,359	\$ 13,636,999	\$ 2,100,880	\$ 144,898,645	\$ 4,073,582	\$ 47,237,303	\$ 204,384,872	\$ 28,918,973	\$ 7,904,948	\$ 200,318,112	\$ 1,189,549,233
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 36,376,642	\$ 74,203,480	\$ 23,063,329	\$ 2,261,208	\$ 52,435	\$ 45,355,158	\$ 980,832	\$ 1,724,662	\$ 26,794,943	\$ 1,095,065	\$ 1,499,361	\$ 37,609,048	\$ 251,016,163
State Special Revenue Fund	10,792,145	14,426,293	1,529,786	2,575,849	305,296	14,192,423	279,078	6,412,192	2,173,058	6,968,754	336,063	16,869,250	76,860,187
Federal Special Revenue Fund	31,912,768	306,248,194	35,604,244	8,799,942	1,743,149	84,273,224	2,813,672	39,100,449	175,416,871	18,163,136	6,069,524	145,839,814	855,984,987
Debt Service Fund	1,918,038					1,077,840							2,995,878
Permanent Fund										2,692,018			2,692,018
Total Expenditures & Transfers-Out	80,999,593	394,877,967	60,197,359	13,636,999	2,100,880	144,898,645	4,073,582	47,237,303	204,384,872	28,918,973	7,904,948	200,318,112	1,189,549,233
Less: Nonbudgeted Expenditures & Transfers-Out	3,410,719	10,982,957	14,051,651	4,342,457	(1,406,158)	16,340,620	(936,453)	2,137,599	22,229,448	864,016	210,142	2,020,223	74,247,221
Prior Year Expenditures & Transfers-Out Adjustments	(2,354,941)	0	(908,276)	38,803	27,897	61,980	23,190	175,748	(410,940)	(2,107)	163,524	107,046	(3,078,076)
Actual Budgeted Expenditures & Transfers-Out	79,943,815	383,895,010	47,053,984	9,255,739	3,479,141	128,496,045	4,986,845	44,923,956	182,566,364	28,057,064	7,531,282	198,190,843	1,118,380,088
Budget Authority	88,405,994	392,057,346	49,177,105	10,527,231	10,692,878	133,338,407	5,648,188	53,283,397	194,035,198	29,804,575	7,681,819	214,637,721	1,189,289,859
Unspent Budget Authority	\$ 8,462,179	\$ 8,162,336	\$ 2,123,121	\$ 1,271,492	\$ 7,213,737	\$ 4,842,362	\$ 661,343	\$ 8,359,441	\$ 11,468,834	\$ 1,747,511	\$ 150,537	\$ 16,446,878	\$ 70,909,771
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 1,998,294	\$ 3,283,955	\$ 111,088	\$ 500,002	\$ 24,718	\$ 1,601,047	\$ 123,225	\$ 4,781	\$ 2,939,682	\$ 113,888	\$ 56,807	\$ 4,531,750	\$ 15,289,237
State Special Revenue Fund	4,387,343	815,159	164,205	663,304	824,031	754,179	39,957	1,434,893	1,802,598	835,690	24,392	2,776,780	14,522,531
Federal Special Revenue Fund	2,076,542	4,063,222	1,847,828	108,186	6,364,988	2,487,136	498,161	6,919,767	6,726,554	797,933	69,338	9,138,348	41,098,003
Unspent Budget Authority	\$ 8,462,179	\$ 8,162,336	\$ 2,123,121	\$ 1,271,492	\$ 7,213,737	\$ 4,842,362	\$ 661,343	\$ 8,359,441	\$ 11,468,834	\$ 1,747,511	\$ 150,537	\$ 16,446,878	\$ 70,909,771

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Public Health and Human Services

Notes to the Financial Schedules for the Two Fiscal Years Ended June 30, 2005

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, Federal and State Special Revenue, Debt Service, and Permanent Funds). In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

The department uses accrual basis accounting for its Fiduciary fund category (Agency Fund).

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared

Notes to the Financial Schedules

from the transactions posted to the state's accounting system without adjustment.

The department conducts program activities in the fund categories as listed below.

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund - to account for proceeds of specific state and private revenue sources legally restricted to expenditures for specific purposes. Activity in this fund includes the Public Health Laboratory, free weatherization, child support incentive payments, cigarette tax revenue, and third party liability recoveries. The fund also accounts for activity at the Montana Developmental Center, the Montana Mental Health Nursing Care Center, the Montana Chemical Dependency Center, and the Montana State Hospital supported by insurance and individual payments.

Federal Special Revenue Fund - to account for proceeds of specific federal revenue sources legally restricted to expenditures for specific purposes. The majority of the activity recorded in the department's Federal Special Revenue Fund include federal grants such as Medicaid; Temporary Assistance to Needy Families (TANF); Low-Income Home Energy Assistance Program (LIHEAP); Vocational Rehabilitation; Child Support Enforcement; Foster Care; Women, Infants, and Children (WIC); Food Stamps; Child and Adult Nutrition; Children's Health Insurance Plan (CHIP); Social Services Block Grant; and Child Care Development Fund Grant programs.

Permanent Fund - to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department accounts for Endowment for Children, and the Montana Tobacco Settlement activity in this fund.

Debt Service Fund - to account for accumulated resources for the payment of general long-term debt principal and interest. The department accounts for the Montana State Hospital and Montana Developmental Center bond payments in this fund.

Fiduciary Fund Category

Agency Funds - to account for resources held by the state in a custodial capacity. The department uses Agency Funds to account for child support payments collected on behalf of children and distributed to custodial parents or guardians. Agency Funds also include moneys belonging to foster care children, residents of care facilities, and damage deposits for departmental housing.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the department has placed in the fund, resulting in a negative General Fund balance for each of the fiscal years ended June 30, 2004 and June 30, 2005.

3. Direct Entries to Fund Balance

The department recorded \$258,176,304 and \$226,317,775 of net direct entries to fund balance in the General Fund during fiscal years 2004-05 and 2003-04, respectively. Most of the Direct Entries to Fund balance in the General Fund result from entries generated by SABHRS to reflect the flow of resources within the fund between separate agencies.

4. Nonbudgeted Activity

The department recorded Nonbudgeted Revenues and Transfers-In related to food stamp benefits of \$86,992,930 and \$77,555,762 in the Federal Special Revenue Fund in fiscal years 2004-05 and 2003-04, respectively. Other Financing Sources in the Federal Special Revenue Fund consists primarily of transfers related to the department's cost allocation plan in fiscal year 2003-04.

In the Debt Service Fund, nonbudgeted revenue activity consists of \$232,583 and \$240,118 in Investment Earnings and \$2,790,904 and

Notes to the Financial Schedules

\$2,632,485 in other Financing Sources for fiscal years 2004-05 and 2003-04, respectively. The investment earnings relate to money held for servicing debt on the Montana Developmental Center and the Montana State Hospital. The Other Financing Sources are transfers of funds collected as charges for services provided by the center and hospital and pledged to meet principal and interest payments on the bonds.

5. Federal Indirect Cost Recoveries

The department's federal indirect cost recoveries are recorded on the Schedule of Total Revenues & Transfers-In under the federal revenue class. The department's federal indirect cost recoveries were approximately \$45,977,000 and \$43,525,000 in fiscal years 2004-05 and 2003-04, respectively.

Department Response

DEPARTMENT OF
PUBLIC HEALTH AND HUMAN SERVICES



BRIAN SCHWEITZER
GOVERNOR

JOAN MILES
DIRECTOR

STATE OF MONTANA

www.dphhs.mt.gov

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OCT 14 2005

LEGISLATIVE AUDIT DIV.

October 13, 2005

Scott A. Seacat
Legislative Auditor
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

Dear Mr. Seacat:

We have reviewed the recommendations in the Department of Public Health and Human Services Financial Compliance Audit for the two fiscal years ending June 30, 2005. Our responses, corrective action plans and expected completion dates for each recommendation are as follows:

1. We recommend the department continue to improve procedures to ensure permanency placement hearings occur as required by federal regulations.

Agency Response: Concur

Corrective Action Plan:

The Child and Family Services Division (CFSD) has and will continue to pursue improvements designed to help ensure permanency planning hearings occur as required by federal regulation. The division has provided training on the importance of annual permanency hearings and standardized court order language. Improved management reporting tools will provide more efficient tracking, monitoring and supervisory review.

SB 119 passed during the 2005 Legislative Session authorizes a foster care review committee or a citizen review board to conduct a permanency hearing subject to approval by the court. If and when utilized, this increased flexibility may assist the scheduling pressures within the district courts.

Expected completion date: Ongoing

2a. We recommend the department establish procedures to review foster care case files as required by federal regulations.

Agency Response: Concur

Corrective Action Plan:

The Child and Family Services Division has put procedures in place to ensure that foster care case files are reviewed as required by federal regulations.

Expected completion date: Completed

2b. We recommend the department comply with state administrative rule requiring eligibility review for foster care cases every six months.

Agency Response: Concur

Corrective Action Plan:

The Child and Family Services Division has put procedures in place to ensure that the department complies with the state administrative rules until such time that the rules can be amended to be no less restrictive than the federal rules.

Expected completion date: Completed

3. We recommend the department establish controls to ensure the federal share of foster care benefits is recorded at the correct rate on the foster care subsystem and on the state's accounting system.

Agency Response: Concur

Corrective Action Plan:

The Child and Family Services Division implemented new procedures, which will require the Operations and Fiscal Bureau Chief review the federal share rate worksheet prior to inclusion in the foster care subsystem. The division will periodically test payment records from the state's accounting system to ensure the correct rates are being used.

Expected completion date: Completed

4a. We recommend the department promptly notify a local agency of any finding identified during a monitoring review, in accordance with federal regulations.

Agency Response: Concur

The Public Health and Safety Division made significant improvements in the timeliness of their monitoring reports during state fiscal year 2005. Of the 13 monitoring visits in 2005, ten of the reports were sent within the 60 day time period, one was sent approximately 120 days after the visit and two are still in process and have not reached the 60-day limit.

Corrective Action Plan:

A Monitoring Tracking spreadsheet has been developed and is reviewed by the Program Manager on a monthly basis to ensure timely review completion and results notification. Monitoring activities, including timely completion of reports has been included in employee performance appraisals.

The DPHHS Internal Auditor will evaluate the success of the new tracking worksheet during a program review to be completed between October 1, 2006 and December 31, 2006.

Expected completion date(s):

Tracking worksheet - Completed

Internal audit – December 31, 2006

4b. We recommend the department review local agency financial reports and evaluate financial management systems during monitoring review, in accordance with federal regulations.

Agency Response: Concur

Corrective Action Plan:

In May of 2005 USDA's Mountain Plains Regional Office performed a Management Evaluation. Following that review, the Public Health and Safety Division resumed the financial reviews required to be a component of local agency monitoring visits. The WIC State Plan (p. 3-B-34) describes the tasks being performed. "The administrative team member will also review original documents (timesheets/cards for WIC employees, telephone bill and how it is distributed among programs, bills for office supplies, rent, etc.) If rent is distributed among programs, written justification for the plan or method used will need to be available. A general guide is that the "paper trail" of expenses claimed must be easy and convenient to follow."

Expected completion date(s): Completed

4c. We recommend the department perform reviews of nutrition clinics in each local agency in accordance with federal regulations.

Agency Response: Concur

The Public Health and Safety Division completed 13 monitoring visits in 2005; twelve of the local programs received a sufficient number of clinic visits.

Corrective Action Plan:

The tracking spreadsheet has been modified to contain the number of clinic sites for a local agency and the minimum number of clinic sites, which must receive an on-site review during the monitoring visit. The Program Manager will review the tracking worksheet monthly.

The DPHHS Internal Auditor will evaluate the success of the new tracking worksheet during a program review to be completed October 1, 2006 and December 31, 2006.

Expected completion date(s):

Tracking worksheet - Completed

Internal audit – December 31, 2006

5. We recommend the department obtain corrective action plans from the local agencies within 60 days of the date the findings reports were received by the local agency.

Agency Response: Concur

Corrective Action Plan:

The Monitoring Tracking spreadsheet, discussed in our response to recommendation 4a, includes a listing for the receipt of a corrective action plan from the local agency. The spreadsheet is reviewed each month for late reports and responses. Division procedures require a letter to be sent if the corrective action plan has not been received by the 60-day deadline. Follow-up letters for all outstanding corrective action plans have been issued.

The DPHHS Internal Auditor will evaluate the timeliness of corrective action plans during a program review to be completed between October 1, 2006 and December 31, 2006.

Expected completion date:

Tracking worksheet – Completed

Follow-up letters - Completed

Internal Audit - December 31, 2006

6. We recommend the department complete and document reviews of voided and reissued WIC vouchers.

Agency Response: Concur

Corrective Action Plan:

A temporary staff person is assigned to review the past void/reissues to determine if inappropriate issuance occurred. The staff person will report findings to the Section Supervisor.

The Information Services Unit (IS) is planning to develop improved void/reissue functionality for the local service delivery staff to utilize when infant and special formula food packages must be voided and reissued with a different infant or special formula. Installation of this upgrade should be completed by December 31, 2005 and eliminate the requirement for state staff to track void/reissue checks.

Expected completion date:

Past void/reissue review - November 15, 2005

System enhancement - December 31, 2005

7. We recommend the department run and review its WIC dual certification report monthly to detect dual participation by clients.

Agency Response: Concur

Corrective Action Plan:

A temporary staff person is assigned to review prior dual certification reports to eliminate false positives and research suspected positives. The duty will be returned to the staff member normally assigned to the task after the backlog has been cleared. Findings will be reported to the Section Supervisor.

Local agencies will be notified to issue the appropriate sanctions as per the State Plan p. 3-B-20 under Participant Fraud/Abuse depending on whether the dual participation was intentional or unintentional. Participants found to be participating in more than one clinic site will be removed from at least one of the clinic sites. If the dual participation is intentional and/or the second offense, the participant will be disqualified for one year and requested to repay the over issued benefits.

Expected completion date: November 15, 2005

8. We recommend the department conduct annual compliance investigations of WIC vendors as required by federal regulations.

Agency Response: Concur

Corrective Action Plan:

In federal fiscal year 2006, five percent of the authorized retailers determined to be high-risk will be visited for a series of compliance investigations or for inventory audits. If the number of high-risk retailers does not equal five percent, the remaining slots will be selected randomly from authorized retailers. All compliance investigations will be completed in federal fiscal year 2006 and subsequent years.

The DPHHS Internal Auditor will evaluate the sufficiency of the compliance investigations performed in federal fiscal year 2006 during a performance review to be completed between October 1, 2006 and December 31, 2006.

Expected completion date: December 30, 2006

9. We recommend the department limit indirect cost payments to WIC agencies to those payments supported by a pre-approved indirect cost plan.

Agency Response: Concur

Corrective Action Plan:

Indirect cost payments to WIC agencies will be limited to those with a pre-approved indirect cost plan up to the limits as described in the WIC State Plan. Procedures will be developed to ensure indirect cost plans are approved. Contract files will be reviewed for the appropriate approval documentation prior to approval of expenditure payments.

Expected completion date: December 31, 2005

10. We recommend the department process payments to local agencies in compliance with section 17-8-242, MCA.

Agency Response: Concur

Corrective Action Plan:

All expenditure reports will be date stamped on receipt. Approval of all expenditure reports properly completed and without questioned costs will be completed within 30 days. The staff member approving payment will notify the Section Manager when an expenditure report is paid after 30 days without a valid cause (improperly completed or questioned costs).

Expected completion date: Completed

11. We recommend the department charge payroll costs to the proper federal grant.

Agency Response: Concur

Corrective Action Plan:

The department will strengthen the prevention and detection procedures to ensure all payroll costs are charged to the correct federal year.

Expected completion date: November 30, 2005

12. We recommend the department implement a procedure to review the Vocational Rehabilitation RSA-1 report to ensure the correct expenditures are reported.

Agency Response: Concur

Corrective Action Plan:

The Disability Services Division will establish a written procedure detailing the preparation and review of the RSA-2 report. Future reports will be prepared and reviewed by two separate employees prior to submission.

Expected completion date: December 31, 2005

13. We recommend the department comply with state regulations concerning the collection of Medicaid overpayments to inpatient hospitals.

Agency Response: Concur

Corrective Action Plan:

The department will strengthen the hospital repayment processes to comply with the administrative rule. The related written procedures will be completed by December 31, 2005.

Expected completion date: December 31, 2005

14. We recommend the department develop procedures to document the receipt of cost reports to achieve compliance with state regulations and the approved state Medicaid plan.

Agency Response: Concur

Corrective Action Plan:

The Health Resources Division has developed a tracking sheet to document the receipt of cost reports. The related written procedures will be completed by December 31, 2005.

Expected completion date:

Tracking worksheet - Completed

Written procedures - December 31, 2005

15. We recommend the department communicate management's expectations regarding disability services provider invoice reviews to regional administrative assistants and quality improvement specialists.

Agency Response: Concur

Corrective Action Plan:

Disability Services Division management will clarify its requirements for provider invoice reviews and communicate their expectations to regional staff in writing.

Expected completion date: October 31, 2005

16. We recommend the department provide drug utilization data to manufacturers within 60 days after the end of the quarter as required by federal regulations.

Agency Response: Concur

Corrective Action Plan:

The Health Resources Division will provide the drug utilization data to manufacturers within the timelines required by federal regulations, for all quarters in which the drug pricing data is received from the Centers for Medicare and Medicaid Services within the required 45 days from the end of the quarter.

Expected completion date: Completed

17. We recommend the department file checklists and application documentation in the Child and Adult Care Feeding Program provider files in accordance with state and federal regulations.

Agency Response: Concur

Corrective Action Plan:

The Human and Community Service Division has completed additional training of all Child and Adult Care Food Program staff. Staff are now keeping copies of all application checklists and menu evaluations for reviewed menus in each provider file.

Expected completion date: Completed

18. We recommend the department implement its policy to prevent contracting with parties that have been suspended and debarred from participating in federal programs.

Agency Response: Concur

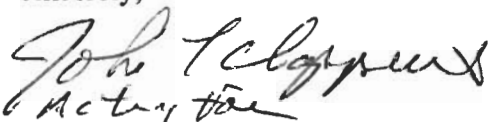
Corrective Action Plan:

The Fiscal Policy Office will re-disseminate the policy to a broader audience. To help ensure the appropriate staff receive, understand and apply the policy, the Internal Auditor will perform a performance review of contract files across the agency.

Expected completion date: January 31, 2006.

I would like to thank you for the professionalism your staff demonstrated during the audit.

Sincerely,


Joan Miles
Director